

AUSTRALIAN ELECTORAL COMMISSION

JSCEM Inquiry into the conduct of the 2001 federal election

**Response to additional questions related to
Supplementary Submission 166
and the public hearing on 9 December 2002 on the
Australian Electoral Commission's financial situation**

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A - Executive Summary

- (i) The following analysis is provided in response to the additional questions relating to Supplementary Submission 166 and the public hearing on 9 December 2002 on the Australian Electoral Commission's (AEC) financial situation. This submission sought JSCEM support in recognising the funding difficulties facing the AEC, and support for the AEC approaching the Department of Finance and Administration (Finance) with a view to achieving a new and increased funding base for the provision of services. A detailed analysis of the AEC's financial results and future requirements will be considered by Finance.
- (ii) The AEC has operated within an increasingly restrictive financial environment since at least 1990-91, culminating in the \$12.4m deficit incurred in 2001-02. The base level of funding has been fixed apart from indexation movements, for a considerable period.
- (iii) A review of the AEC's funding base as stated in Supplementary Submission 166, is appropriate. Funding in real terms has fallen, while operational workloads have increased markedly. The funding framework has become more stringent and onerous, requiring efficiency savings and the partial absorption of costs of the initiatives introduced. The need to continually enhance the IT electoral systems in addition to maintaining the inflexible divisional structure has placed a significant burden on the AEC. The funding of major electoral events, the timing and nature of which is uncertain, is now included in ordinary appropriations, instead of being separately funded. A number of initiatives continue to be applied to manage, monitor and reduce costs, and to contain the funding gap. The ability to do so has reached a point where the high quality of service is being reduced to a level reflecting the price paid for the service.
- (iv) The timing of electoral events is uncertain during budget preparation and results in significant funds being required sporadically. The funding of major electoral events requiring a concentration of significant resources in a short time frame results in large fluctuations in funding requirements. This distinguishes the AEC's financial requirements from other agencies. The responses below need to be read in the context of the major electoral cycles. Annual Reports record the financial activities within a financial year. Electoral cycles can span three financial years. While a breakeven position may be achieved over this three year cycle, individual financial years have traditionally recorded a surplus in the years preceding and following the year of the election and a deficit in the year of the election.

B - AEC Financial Situation

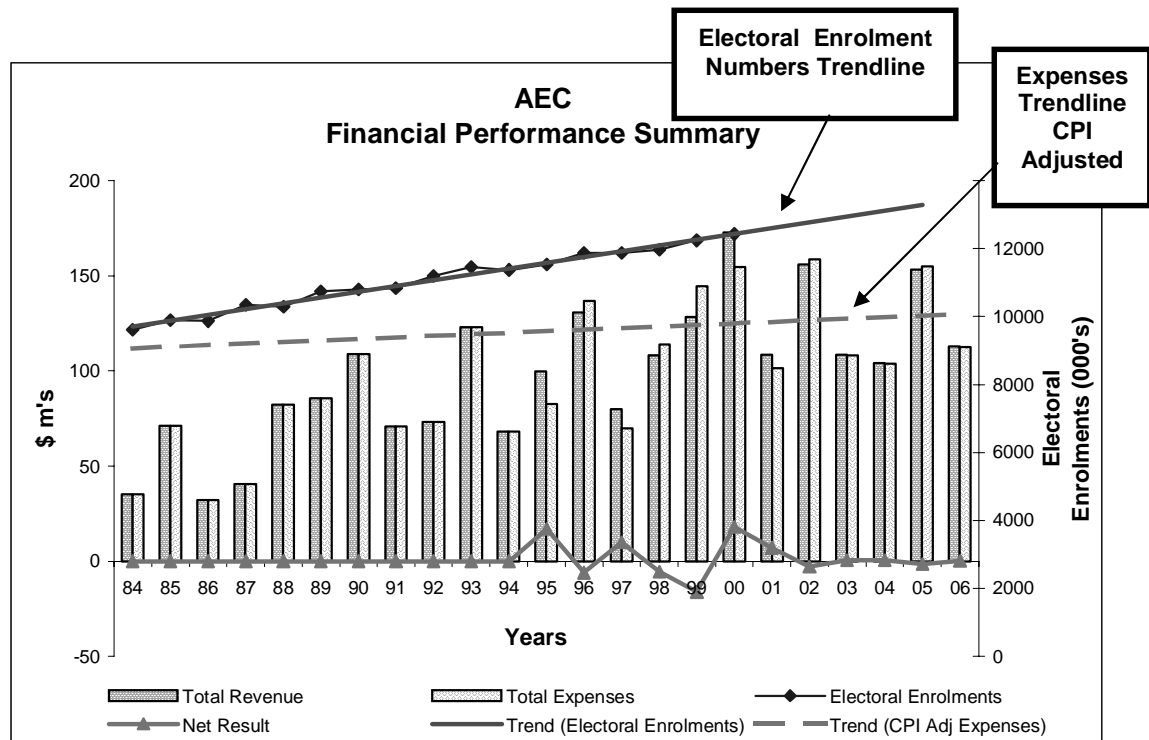
Question 1

Figure 1 below indicates that enrolment is growing at a faster rate than expenses and revenue. Is it correct that revenue rose by 36% (net 2% pa) while enrolment rose by 30% in the period 1984 - 2002?

Figure 1: AEC financial performance summary

Source: Submission 166, page 6.

Table 1 shows the information in Figure 1 in table format for the years 1994-95 to 2001-02. It has been prepared based on



information contained in AEC annual reports.

- 1.1. This is not correct. Submission 166 at paragraph 3.2.3 states that the total increase since 1984 is 2%, after adjusting the 1983-84 dollars to 2001 dollar terms. This is not a per annum figure. Attachment 5 provides an indicative comparison of 1983-84 and 2000-01 revenue and expenditure.
- 1.2. The point remains. Our non-election activity, enrolment, has increased by over 30% over the same period and the revenue to cost trend comparison is diverging. We cannot sustain this divergence with the current funding structure.

Question 2

Why did the AEC's financial situation deteriorate so quickly, from a surplus of \$18m in 1999-2000 to a deficit of \$12.4m in 2001-02?

2.1. The accounting recognition of revenue and expense under the accrual system creates volatility, as revenue is not necessarily matched to the related expense. In the year preceding any election, revenue is received to fund preparatory costs, such as the purchase of inventory. The revenue must be recognised in the year it is received however the expense associated with inventory is in the year of the event when the inventory is consumed (inventory is carried as an asset in the meantime), thereby creating a surplus in the year before the event. In the year of the event, work may also commence on the post election analysis and reviews and any legal action stemming from the election, the funding of which occurs in the subsequent year. In summary, a surplus is expected in the years preceding and subsequent to the election year and a deficit is expected in the year of the election. (See Table 1 below) As reported in the annual reports, the deficit in the election year 1998-99 fell from \$16.2m to \$12.3m in 2001-02, reflecting the efforts being taken to monitor and control expenditure. Historically the two surpluses and deficit during the three-year election cycle, has resulted in a breakeven situation. Anomalies occur during these cycles, due to unusual events such as the Referendum. The AEC may however report a deficit in both 2002-03 and 2003-04 as a result of the tight funding situation.

Table 1 Historical trends based on information contained in the Annual Reports

Financial year	Electoral Cycle	Revenue	Actual expenditure	Net Operating Surplus / Deficit	Adjustment	Footnotes	Net Operating Surplus After Adjust	Comments
		(\$ '000)	(\$ '000)	(\$ '000)	(\$ '000)		(\$ '000)	
1994-95	2	99,733	82,746	+16,987	-16,952	(a)	35	
1995-96	3	130,834	136,772	-5,938	-2,562	(b)	-8,500	Federal election 02/03/96
1996-97	1	79,685	69,945	+9,740	-1,736	(c)	8,004	
1997-98	2	108,301	113,818	-5,517	+5,030	(d)	-487	
1998-99	3	128,323	144,487	- 16,164			-16,164	Federal election 03/10/98
1999-2000	1	172,827	154,747	+18,080	-2,500	(e)	15,580	
2000-01	2	109,014	101,945	+6,994	-7,163	(f)	-169	
2001-02	3	152,521	164,849	-12,372	-3046	(g)	-15418	Federal election 10/11/01
Cumulative Total				11,810	-28,929		-17,119	

Adjustments

Adjustments have been made to eliminate changes in accounting policies and funding anomalies to enable the operating cycles to be clearly seen and more directly compared.

- (a.) Revaluation of assets \$12.226m and transfer of superannuation liability \$4.726m due to change in accounting policies.
- (b.) Revaluation of assets \$2.562m due to change in useful life of assets.
- (c.) Revaluation of assets \$1.736m due to change in useful life of assets.
- (d.) Write down of assets \$5.030m following outsourcing of IT equipment.
- (e.) Referendum income of \$2.500m was received in revenue in 1999-2000, returned as dividend in 2000-01.
- (f.) Electoral Amendment Act No.1 quarantined funding \$7.163m.
- (g.) Electoral Amendment Act No.1 quarantined funding \$3.046m.

2.2. The financial situation while becoming increasingly difficult, particularly to implement the technological changes required, is not deteriorating rapidly, but is being managed. A pricing review was initially scheduled with Finance for the 2001-02 financial year, to address this increasingly difficult trend. Although this has been postponed until the 2004-05 Budget process, the Output Pricing (Resourcing) Review Team is continuing to build a sound business case to support the AEC's costing of outputs, in recognition of the deteriorating funding position. (See Table 1 above, reflecting the three year electoral cycle.) The Accumulated Results in the Annual Report at 30th June 2002 shows a surplus of \$0.963m. This result would have been a deficit if the non-operational accounting gains (for example the revaluation of assets and funding for Act No. 1) of \$28.929m had not been accounted for. Management initiatives have attempted to hold the ongoing expenditure to previous year levels, in an environment where property and IT resources are increasing at an accelerating rate. The structure of the organisation is inflexible, providing limited discretionary ability to either increase or reduce costs. Salary, IT and property costs which are the major costs, are for the most part non discretionary. The costs of major electoral events are driven by relatively inflexible procedural requirements. Despite this inflexibility, the efficiencies made have kept these rising costs to a minimum or enabled the absorption of emerging costs or new service requirements.

2.3. The uncertain timing of electoral events, particularly Federal elections have meant that the estimates of required appropriations, which have been submitted well in advance of the knowledge of the timing of a major electoral event, may differ considerably from the expenditure required during a financial year. This does not necessarily generate a surplus or loss, but may do due to timing issues between financial years. The volatility of electoral cycles places an additional burden on the management of the administration and base operations, which has to "cushion" short term shortfalls in the funding of events.

Question 3 to 7

Overview

The following table (Table 2) summarises Outcome 2 as reported in the Annual Reports for 2000-01 and 2001-02, and has been provided to present an overview of the figures referred to in questions 3 to 7. These questions reflect the difficulty of preparing the Portfolio Budget Statements (PBS), prior to knowledge of electoral events.

Table 2 Outcome 2 2000-01 and 2001-02 (Shown in \$'000's)

	Analysis Outcome 2	Budget 2000-01	Actual 2000-01	Variance	Budget 2001-02	Actual 2001-02	Variance
2.1	Elections, Ballots & Referendums						
2.1.1	Federal Elections, by-elections & referendums	28,685	21,906	6,779	75,476	76,234	-758
2.1.2	Party Registrations	407	510	-103	421	311	110
2.1.3	Funding & disclosure services	1,115	825	290	1,037	784	253
2.1.4	Public awareness campaigns, media releases	982	160	822	8,856	9,267	-411
2.1.5	Information services	943	6,234	-5,291	5,609	12,007	-6,398
2.1.6	Industrial elections and ballots	5,556	7,416	-1,860	5,403	5,481	-78
2.1.7	ATSIC elections	0	272	-272	0	383	-383
2.1.8	State & local govt elections	0	0	0	0	387	-387
2.1.9	Advice & assistance in overseas elections	816	0	816	838	1,553	-715
	Total output Group 1	38,504	37,323	1,181	97,640	106,407	-8,767
	Revenue from other sources	2,492	7,719	-5,227	2,801	6,473	-3,672
	Total price of departmental outputs	40,996	45,042	-4,046	100,441	112,880	-12,439

Question 3

With reference to the AEC's Annual Report 2001-02, why was expenditure for Output 2.1.5 – Information Services significantly over budget two years running?

- 3.1. Portfolio Budget Statement (PBS) budgets are forecast prior to knowledge of which electoral events are to be held during a year. Historical analysis is used to assess the likely timing of events and estimates are made based on this. The cyclical nature of AEC activities and the uncertainty of the timing of electoral events, which have a significant impact on costs, make forecasting difficult. Accounting for and costing of services has improved. There is a greater level of detail, with an increased number of cost categories. Variances occur between individual cost categories. This appears to be common across all government agencies.

- 3.2. The budgets are allocated to outputs using the knowledge of prior events. The use of outcomes and related outputs commenced in 1999-00, consequently historical knowledge had to be adapted to fit the new regime.
- 3.3. Planning of information and public awareness needs are determined by the particular circumstances existing at the time the election is called. This may result in costs that are different from prior elections.
- 3.4. Output 2.1.5 included preliminary advertising development costs of \$1.232m (GST inclusive) in 2000-01. It appears that these costs should possibly have been allocated to output 2.1.4. with the corresponding budget. Services provided under the outputs in question are summarised in the response to question 4 in Para. 4.2 below. The remaining costs relate to the enabling inputs, salaries, corporate inputs, property, IT and depreciation, which were first attributed in to outputs in 1999-00.
- 3.5. \$3.171m (GST inclusive) was incurred on the operation and management of the outsourced call centre, recorded in output 2.1.5 in 2001-02. The balance of costs incurred include printing and binding, electronic services and attributed enabling inputs (Para. 8.4). As discussed in question 5 (Para. 5.5) below, alternative strategies are being pursued to contain these costs.

Question 4

Did the figure for 2001-02 include expenditure related to the 2001 federal election? If so, why was that not included under Output 2.1.1?

- 4.1. It is assumed that this question relates to Output 2.1.5, following the question on this output in question 3.
- 4.2. Outcome 2 – Elections, ballots and referendums consists of nine Outputs. These outputs represent the nine main election services provided. Performance indicators and targets are established against each to cost the service provided and to monitor service levels and performance. The costs of a federal election can span different outputs, depending on the service being provided.

Output 2.1.1 Federal Elections, Referendums and By-Elections

This output covers issues relating to the planning, management evaluation and reporting of the conduct of federal elections, by-elections and referendums.

Output 2.1.4 Public Awareness Campaigns, Media Releases

This output covers the development, implementation and evaluation of public awareness campaigns, to increase public awareness and participation in elections. This includes advertising and awareness campaign costs.

Output 2.1.5 Information services

This output includes the AEC's information services such as the national telephone enquiry service, elector leaflet, telephone interpreting service and the website, to ensure the public has ongoing access to accurate and timely information about the electoral service.

- 4.3. The cost of call centres, the AEC website and election publications, while incurred as a direct result of election activities are recorded for output pricing and monitoring purposes under Output 2.1.5, rather than Output 2.1.1.

Question 5

What strategies have been devised to avoid a repeat of over-expenditure for Output 2.1.1?

- 5.1. Output 2.1.1 was under-budget in 2000-01, but over-budget by \$0.758m in 2001-02 of a total budget of \$75.476m (1%). It was therefore assumed that the question referred to Output 2.1.5 following the preceding two questions on the expenses relating to this output and the comments below are therefore made in relation to Output 2.1.5.
- 5.4. As discussed in Para. 3.1 above, the PBS budgets are forecast prior to knowledge of which electoral events are to be held during a year. The cyclical nature of AEC activities and the uncertainty of the timing of electoral events, make forecasting difficult. Costs were maintained within the detailed budgets prepared on announcement of the Federal election.
- 5.3. Specific initiatives to enhance the cost effectiveness of activities following the post election analysis include;
- A thorough analysis of advertising costs. The use of prior advertising concepts is being considered, to decrease advertising costs.
 - Consideration of alternative call centre options.

Question 6

Why was there such a difference in budget and actual for Output 2.1.4 – Public Awareness Campaigns in 2000-01?

- 6.1. As discussed in the response to question 3 (Para 3.1) above, PBS budgets are forecast prior to knowledge of which electoral events are to be held during a year. The actual cost of \$0.160m recorded in 2000-01 related to the referendum. Preparatory costs for the 2001 election did not occur until the 2001-02 year.

- 6.2. As discussed in Para 3.4 above, Output 2.1.5 included preliminary advertising development costs of \$1.232m (GST inclusive) in 2000-01. It appears that these costs should possibly have been allocated to output 2.1.4.
- 6.3. Allocation of the budget under the new output pricing regime, is being refined as part of the output pricing (resourcing) review.

Question 7

Why did the amount jump so much in 2001-02 – did this include activities related to the federal election? If so, why weren't these amounts recorded under Output 2.1.1 – Federal Elections?

- 7.1. Following question 6 this response relates to the increase in Output 2.1.4 from \$0.160m in 2000-01 to \$9.267m in 2001-02. As discussed in the response to question 3, the budget is prepared well in advance of electoral events. This expenditure was actually incurred in line with the budget prepared closer to the event.
- 7.2. 2000-01 costs incurred related to the final stages of the Referendum event. 2001-02 costs were incurred as part of the 2001 election event.
- 7.3. 2001-02 included election advertising costs of \$9.151m (GST Inclusive), being television \$5.322m, the press \$3.160m and radio \$0.669m. Advertising management fees of \$0.3m (GST inclusive) were also incurred. The remaining costs related to the attribution of the enabling inputs, salaries, corporate inputs, property, IT and depreciation.
- 7.4. As noted in the response to question 4 the costs of a federal election can span different outputs, depending on the service being provided. Output 2.1.4 Public Awareness Campaigns, Media Releases includes advertising and publications. This output covers the development, implementation and evaluation of public awareness campaigns, to increase public awareness and participation in elections.

C - Cost Of Federal Election

Question 8

Please provide a breakdown of the cost of the 2001 federal election. The Committee notes that Submission 147 indicates the cost was \$67m but that data in Annual Report 2001-02 suggests the cost was \$76m (expenditure under Output 2.1.1 in 2001-02). However, a different approach could put the cost at \$118.9m (comprising \$76m + \$21.9m + \$9m + \$12m, that is expenditure under Output 2.1.1 in the Annual Report 2000-01 and Annual Report 2001-02 and under 2.1.4 and 2.1.5 in the Annual Report 2001-02).

- 8.1. The direct cost of the 2001 federal election to 28th February, 2002, as recorded in the 2001 Electoral Pocketbook is \$67,270,628. The breakdown of these costs is provided in Attachment 1.
- 8.2. The costs recorded in the Electoral Pocketbook are not directly comparable to the costs recorded in the Annual Report. The Pocketbook and the JSCEM Sub 147 information were provided in the same manner as the AEC has reported to stakeholders in the past. These have shown the direct costs of events by major categories. The annual report information is prepared in accordance with the Finance Minister's Orders under the Financial Management and Accountability Act 1997 and in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.
- 8.3. The Electoral Pocketbook costs;
- Record a single electoral event.
 - Spans more than one financial year.
 - Do not include the costs of all post event costs as the Electoral Pocketbook needs to be produced soon after the election whereas post event activities may continue for some time into the next financial year.
 - Are GST inclusive and
 - Are direct electoral costs only, being those costs specifically incurred for the election, such as advertising, ballot paper, polling staff wages.
 - These costs do not include the attribution of permanent staff base salaries, property and IT infrastructure.
- 8.4. Annual Report costs, recorded under Output 2.1.1, 2.1.4 and 2.1.5 (See question 3);
- Include costs of other electoral events, such as by-election and referendum costs, as well as possible preparatory costs for future electoral events.
 - Record the costs incurred within the financial year.
 - Includes AEC permanent / ongoing employee costs.
 - Includes the attribution of enabling inputs including;
 - Corporate costs
 - Property costs
 - IT costs
 - Depreciation and amortisation costs
 - Are GST exclusive.
- 8.5. Output costing reflects the full cost of all AEC services and as such includes a full attribution of corporate and infrastructure related costs.
- 8.6. The Annual Report records the cost incurred during a financial year of all electoral costs irrespective of the phase in the electoral cycle. These include the costs of;

- On going electoral preparedness.
- The initial preparatory work, in readiness for an election.
- The event.
- Post event analysis, audit, inquiry, prosecutions.
- Both direct event costs which relating to the specific election, together with indirect costs, enhancing the Election Management System (ELMS) and implementing recommendations.

8.7. The following table provides a broad reconciliation of the Electoral Pocketbook costs to those recorded under Outputs 2.1.1, 2.1.4 and 2.1.5 in the annual report.

	\$ m's
Direct cost per Pocketbook of 2001 election at 28-02-02	67.3
Less 2000-01 costs	(5.0)
Less GST	(2.5)
Add Costs between 01/03/02 to 30/06/02	2.0
Ongoing, by-election and referendum costs	2.0
Enabling Inputs relating to all events and ongoing support services	
Salaries	19.9
Corporate Inputs	2.0
Property Costs	5.3
Depreciation and Amortisation	4.1
Other Net Costs	1.9
Annual Report Costs of Output 2.1.1, 2.1.4 & 2.1.5 at 30-06-02	97.0
Annual Report Costs per Output 2.1.1 at 30-06-01	21.9
Cost per question 8 reconciliation	118.9

Question 9

Can the AEC provide the Committee with a spreadsheet showing the break-down of expenditure on federal elections since 1990? (Page 60 of Submission 147 shows the break-down of expenditure on the 2001 federal election. There is a large figure of over \$28m against Divisional Offices. It would be helpful if the spreadsheet could break this figure down into its 3 or 4 main components).

Supplementary Question to Question 9

Questions 9 requests a spreadsheet showing expenditure on federal elections since 1990. We asked for a break-down of the expenditure under Divisional Offices so that we can better understand what is included in that item.

We noticed that there is another large item of almost \$10 million under Election Management. Could the spreadsheet also please provide a break-down of that figure so that we understand its major components.

- 9.1. Attachment 4 shows the **direct** costs as recorded in the electoral Pocketbook since 1990. The classification of costs has changed over the years, making direct comparison difficult, so the table is indicative of the cost of each activity for each election. It should be noted that the AEC is revising the mechanisms for costing and reporting activities as part of the output pricing review.
- 9.2. The Divisional Offices cost of \$28m is the cost of temporary staff wages (AECPAY), incurred during the election.
- 9.3. Election Management cost of \$10m, consists of the following;

	\$ m's
Permanent staff overtime	2.0
Polling place hire	1.1
Permanent staff other entitlements	1.0
Freight	0.9
Postage	0.8
Printing and binding	0.5
Numerous small expenditure (including furniture hire, security, storage, telephone and travel costs)	3.7
	<u>10.0</u>

D - Deficit in 2001-02

Question 10

What were the other major factors contributing to the \$12.4m deficit in 2001-02?

- 10.1. The deficit in 2001-02 needs to be seen in the context of the electoral cycles (see table 1) and the AEC's financial situation detailed in the response to question 2. Numerous factors contributed to the deficit for 2001-02.
- 10.2. The major factors contributing to the \$12.4m deficit were;
- Usage of \$2.690m inventory acquired in prior years and held as an asset, was expensed during 2001-02.
 - Depreciation and amortisation expenses for 2001-02 were \$9.3m, which was \$1.9m above the budgeted expense of \$7.4m.
 - Wage increases of 8% were well above those budgeted in the PBS, as documented in Submission 166 Para 5.21.
 - Property costs were \$1.519m above anticipated costs, due to the increased rental on new lease terms, particularly in Vic and the ACT

during 2001-02. Certain back dated rental increases were expensed during 2001-02.

- IT related expenditure increases, including;
 - Mainframe charges were \$1.550m compared to \$1.061m from the previous year.
 - Data Comms charges were \$2.822m compared with \$1.469 of the previous year.
- Other costs which were above the anticipated costs included in PBS forecasts included;
 - Call centre costs of \$3.171m (GST inclusive) were incurred.
 - Temporary staff costs, incurred in central office, state head offices and divisional offices were \$31.568m, which were above those incurred in the previous election year.
 - Department of Foreign Affairs and Trade (DFAT) election services were \$0.247m.

Question 11

What strategies have been devised to avoid incurring a deficit again in 2002 -03 and future years?

- 11.1. A number of initiatives are continuing to ensure costs are contained within the funding provided, while maintaining excellence of service, high integrity of electoral rolls and the management of successful elections. These initiatives range from organisational structural change to the streamlining of daily routine tasks and have been progressively planned and implemented by the AEC over the last few years. Initiatives include;
- Management committees for each outcome have been established to manage, streamline and oversee the financial and performance progress of each outcome
 - The internal budget preparation regime has been strengthened and made more rigorous, imposing mandatory savings targets and carefully prioritising requests for additional funding.
 - An output pricing (resourcing) review, is examining all processes and activities to document, understand and improve all activities as a step towards best practice. The AEC has been keen to undertake this review for the last couple of years as the major vehicle for a review of and hopefully an increase to our funding. Unfortunately there have been delays beyond AEC's control and the review is expected to report to Government in the 2004-05 Budget round. This review is being conducted in conjunction with the Department of Finance and Administration.
 - All staff have been made aware in various communications, workshops and internal meetings, of the critical need to streamline and improve operations.
- 11.2. As the cost structure of the AEC is largely fixed, the contractual and logistic requirements of many of these initiatives, which are significant, require time to be recognised in the financial results. There may also

be implementation costs to be incurred in the short term to generate savings in future periods. These changes include;

- Amalgamation of Divisional offices, ensuring minimal impact on the quality and availability of services provided,
- Streamlining devolved corporate functions back to a central specialist area, and
- Examination of enrolment processing alternatives.

11.3. The fixed, non-discretionary nature of many AEC costs has left little option but to make savings apart from salaries. It has therefore been necessary to reduce full time equivalent (FTE) staffing levels, to both maintain overall cost levels and to neutralise the effect of the recent wage agreement increases. The reduction in salary dollars has meant a reduction in certain services. For example, services may be reduced due to the temporary closure of Divisional offices as positions may not be able to be backfilled during staff absences or short-term leave. These decisions have been particularly difficult, as the AEC is acutely conscious of servicing the Divisions' responsibly. It has also meant that a number of ongoing activities at all levels of the AEC have been delayed in their delivery and some projects have not been able to proceed. Examples of these are detailed in Paragraph 11.5 below. While the current period is a non election period, there is a need to maintain and safeguard the proven expertise in the organization over the longer term, to ensure the continued high quality conduct of future elections, particularly as many in the long serving staff structure are nearing retirement.

11.4. It should be noted that when cuts have been made or projects deferred, wherever possible, alternative strategies have been employed in the short term to ensure that the electorate is not unduly disadvantaged. Deferral of new development can only be sustained in the short term. The consequences of longer term under funding are documented in Submission 166 Para.7.2. Long term consequences of this nature will undermine the integrity of the roll and the potential to run successful elections, will result in increasing inefficiencies and ultimately result in substantial funding being required to re-establish the high quality of service, currently experienced.

11.5. Some specific initiatives as a consequence of the above management direction are detailed below.

Outcome 1

- The Research and Surveys redistribution analysis has been deferred.
- Content and participant numbers of the RMANS conference have been significantly reduced.
- Electoral Roll Review supplies and services savings will be made.

Outcome 2

- Internet training development has been deferred.
- Discretionary expenditure for research and survey purposes have been cut and there has been a reduction in the ability to bring research people into Central Office.
- Certified List Scanning System upgrade work has been deferred.
- The Funding and Disclosure (FAD) electronic lodgement system has been funded to functional requirement stage only.
- Electronic voting development has been restricted to a feasibility study only.
- Alternative call centre solutions are being considered.
- International Section's funds have been reduced.
- The capacity to involve divisional and head office staff in working parties to progress system and procedural improvements has been restricted.

Outcome 3

- The refocusing of effort relating to electoral education costs has resulted in a reduction in community visits and a significant reduction in primary school visits.
- Internet home page maintenance costs are being kept to a bare minimum.
- The People's Say publication is not currently scheduled due to non availability of staffing resources.

Outcome 4

- Reduction in the vehicle fleet of 25%.
- Introduction of electronic remote access for some payroll processes to streamline administration.
- Introduction of more National contracts to streamline processes.

- 11.6. General cuts have been made to all outcomes to reduce the cost of travel, printing and discretionary bids. The extent to which the additional work can be delegated to Divisional staff is limited. Practical geographic considerations may prevent the allocation of tasks to divisional offices. In addition, the technical nature of much of the enhancements precludes assistance by divisional staff.
- 11.7. Despite these efforts the AEC may still make a loss in 2002-2003 and also 2003-04. Finance are aware of this and are assisting the AEC to obtain necessary approvals pending completion of the output pricing (resourcing) review.

E - Cash At Bank

Question 12

Page 8 of Submission 166 states that the AEC has \$25.6m in the bank, but it would appear that this is all committed to cover payables and other liabilities, including some employee entitlements. What is the rationale for making the statement on page 8, given that normal business expenses such as payment of invoices (payables) and payment of staff leave would come out of normal cash flow?

- 12.1. The difficult financial circumstance has resulted in the bank balance falling by \$5.9m from \$31.5m at 30th June 2001 to \$25.6m at 30th June 2002. \$9.6m relates to the Act No. 1, which has been received for the proposed changes to the enrolment witnessing provisions and \$5m has been committed to the IT refresh upgrade program, with a further \$5m to be used for strategic capital replacement. The remaining funds are required to service employee entitlements as they fall due, and normal working capital requirements. A strong working capital position is being maintained to provide cash for the new initiatives being introduced, including the amalgamation of divisions, centralisation of corporate functions, in addition to ensuring a continued high quality service under the current restrictive funding arrangements. Consideration has also been given to adequately providing sufficient cash for the payment of entitlements to the high proportion of long serving staff that may be nearing retirement and the training of their replacements. Employee provisions total \$21.4m of which \$8.1m is current, some of which would be funded from normal operations.

Cash	\$ m's <u>25.6</u>
Quarantined Funds	
Act No 1. Funds	9.6
IT Capital refresh program	5.0
Strategic capital replacements	5.0
Excess current employee entitlements due to ageing staff population	1.0
Working Capital	<u>5.0</u> <u>25.6</u>

- 12.2. After removing the quarantined funds and inventory from current assets, current assets equal current liabilities showing that the AEC has been prudent in the management of funds.

F - Funding For Asset Replacement

Question 13

Page 8 of Submission 166 states that non-financial assets have declined from \$31m in 1997-98 to \$24m in 2000-01 as a result of a shortage of funds to maintain the asset position. However, in 1999-2000, the AEC was provided with \$6.5m depreciation funding and in 2000-01 with \$7.0m (Source: Portfolio Budget Statements 2001-02).

Were these funds used to maintain the asset position? If the AEC has not used those funds for assets, what has it used the money for?

13.1. The AEC has had to make cuts in all areas to be able to maintain services. The lives of assets have been extended and replacement avoided where possible. Management has focussed on key strategic replacement issues such as IT, software and property, which are the larger contributors to depreciation, rather than furniture and equipment that are replaced only if broken. The AEC recognises that this is a short term strategy that cannot be maintained indefinitely, but faced with real resource shortages, has reluctantly adopted this approach. It should be noted that depreciation for items is straight line across their lives but replacement can be in peaks and troughs. Over time a balance is built up for replacement in subsequent periods. As part of the move to bring some IT services back in house, funds were set aside for the IT Capital Refresh program as shown in question 12 above. In addition, funds have been reserved for other strategic asset replacements as they are required

G - Funding gap

Question 14

The AEC's Submission 166 identifies a funding gap of \$32.7m but the Submission indicates that the AEC would be happy with additional funding in the range \$15-20m. Please explain the relationship between the two amounts ... if \$32.7m is needed why settle for \$10-15m less?

14.1. As indicated in Submission 166 Para 7.1.3, although the funding gap is \$33m per annum, the AEC does not anticipate that it will seek full recovery. The \$15-20m estimate of required funding is after allowing for efficiency improvements made over time. This estimation has been made prior to the completion of the output pricing (resourcing) review, which will provide more accurate requirements with full substantiation. The AEC has made a lot of progress with the review and is providing information as it becomes available to Finance.

14.2. The total funding gap of \$32.7m includes a cumulative efficiency dividend of \$6.5m, which the AEC has provided over time. Attachment 3 collates the remaining net activity gap of \$26.2m into non

discretionary, discretionary and election costs. Non-discretionary expenditure of \$18.3m is required to maintain the critical support mechanisms of the organisation's infrastructure. \$2.27m relates to election related costs, which need to be included in the funding submission for electoral events. \$5.63m is discretionary expenditure, maintaining a customer focused service delivery and the standing of the AEC to the public and international observers.

- 14.3. While the \$18.3m non discretionary and \$2.27m election funding is required, the \$5.63m discretionary costs can be considered in the light of other potential offsets in operations.
- 14.4. It is recognised that the AEC is required to continue to streamline operations and strive for industry best practice to keep costs down, while providing a high quality service. Management recognises their responsibility to manage the resources and to work with Finance in a business partnership.

Question 15

Of the 21 items listed in the summary of 'gap items' on page 28 of submission 166, wouldn't most be regarded as normal business costs, which the AEC would be expected to absorb from the regular annual increases in appropriations?

- 15.1. The 'gap items' (page 28 of submission 166) are normal business costs, and as a consequence the AEC has been experiencing financial pressure. The regular annual increases in appropriations have not adequately compensated for the changes occurring. They do not take into account the fundamental changes in structure of the AEC. The continual need to enhance the IT electoral systems has been required in addition to maintaining the existing traditional divisional structure. The requirement to maintain a divisional presence, with 3 staff per division, has limited the normal efficiency benefits new technology provides, imposing an additional cost on top of salary and property costs. While some initial funding for the development of the IT systems was provided, as with all computer systems, both require on going maintenance and continual refinement and upgrading of the programs. The data matching process requires the ongoing purchase of information, adaptation of source information to provide compatibility and then the follow up of unmatched information. This service substantially strengthens the integrity of the electoral roll, the benefits of which are not recorded in dollars. The comparison of databases on a regular basis has resulted in the increase of administrative work, following up unmatched addresses, to verify their status.
- 15.2. The regular annual increase in appropriation, which is provided to cover increases in salaries and their related on costs, has been small. The proportion of the IT component to total costs has increased substantially. Technology changes rapidly, requiring frequent

replacement of hardware and the development and upgrading of software. Programmers, software and hardware are costly. In the response to question 1, the indicative figures when comparing 1983-84 to 2000-01, show that revenue has fallen in real terms, expenditure has only increased by 4% while enrolments have increased by 30%, in addition to the AEC improving the integrity of the electoral roll on a continual basis. The only "regular annual increase" is indexation which has been eroded to a large extent by the annual efficiency dividend. Our existing funding model has not kept abreast of the significant changes in the provision and delivery of AEC services and is not linked to the workload. No mechanisms currently exist for regular reviews or automatic increases / adjustments. The only increases received have required considerable effort to obtain or, relate to new business/requirements and do not address any of the existing problems.

Question 16

Several of the 'gap items' relate directly to the conduct of federal elections (eg Virtual Tally Room, Visitor Program, Election Temporary Staff). Wouldn't those be funded by the additional appropriations provided to the AEC in election years?

16.1. Funding for election and running costs was separately recognised until the implementation of accrual budgeting. This provided greater flexibility when negotiating the necessary funding specifically for events. Since the implementation of accrual budgeting, event and running cost appropriations were combined, which effectively locked in the base amount for elections and made it more difficult to achieve any review of event costs. The amounts for future events are built into forward estimates and the only mechanism currently for review is through the budget process. Many of the initiatives the AEC has implemented to provide better services to stakeholder groups have therefore been absorbed or funded from other internal savings where possible. Our capacity to do this into the future is restricted as identified in Submission 166.

H - AEC Financial Management

Question 17

Please outline the financial management expertise within the AEC. Does the AEC have a Chief Finance Officer, with appropriate experience and qualifications? When was this officer appointed to that position?

17.1. Attachment 2 provides details of the qualifications of the financial management staff including the Chief Finance Officer within the AEC. The AEC considers that the skills of the financial staff are sound and consistent with that of other agencies.

17.2. A number of strategies have been introduced to enhance the financial management of the AEC operations:

- Outcome committees have been established to oversee and monitor the financial management of each outcome.
- An output pricing / resource review program is continuing.
- The costing of all processes & activities are being examined.
- External & internal benchmarking is being conducted.
- A detailed funding model is being constructed.
- Activity based costing systems are being considered.
- Changes have been made to the finance team to keep pace with the changing financial management requirements and practices.

Question 18

Page iv of the Submission states, 'AEC funding (CPI adjusted) has not increased appreciably since 1984 yet there has been considerable growth in services over the same period' ... and indicates that requests for additional funding have not been successful with the result that the AEC now faces a very difficult situation. How did this situation develop? Why did it take so long to manifest itself?

18.1. AEC management has taken steps where possible in the last 12 years to raise this issue with appropriate stakeholders and to obtain additional funding or changes to structure and processes to be able to remain within available funding. Current initiatives include the Output Pricing (Resourcing) Review which is gathering credible information regarding the quantity, quality and price of specific deliverables produced by the AEC, to establish a sound basis for negotiation with Finance and to better align the price charged for services with the measurable delivery of these services.

18.2. In the Forward to the Annual Report 1990-91, the increasing workload with diminishing resources was referred to by the Commissioner as follows; "...the workload of the organisation has increased significantly and at the same time the application of the 1.25 per cent efficiency dividend has cut into our staffing resources for the fourth consecutive year. There are, however, limits to the extent to which a small organisation can carry an increasing workload with diminishing resources. A particular problem which faces the Commission in trying to meet this challenge is the limit placed on its flexibility by its peculiar structure: about 60 per cent of our staff work in 148 isolated, three-person Divisional Offices. ...It is the work in these offices, too, which is being streamlined by the introduction of improved systems and the increased use of technology. Yet as long as our divisional structure retains its current form it will be impossible for us to realise the potential for increased efficiency envisaged when the dividend concept was introduced.....Without change, or in the absence of supplementation of the Commission's general resources, it is difficult to

be optimistic about the Commission's ability to continue to carry out properly the increasing range of tasks it is required to perform."

- 18.3. More specifically the situation developed because of;
- The rigid structure of the organisation.
 - The need to continually enhance and develop IT electoral systems.
 - Increasing cost of outcomes due to the change in "mix" of administrative costs. The increasing IT component of the AEC base operations changes rapidly and requires continual development to maintain currency. The relative growth in IT costs as a proportion of total AEC costs, has placed additional pressure on expenditure.
 - Increasing legislative complexity and prescriptive requirements.
 - Continual absorption of funding shortfalls of new initiatives.
- 18.4. In addition to the fundamental change from a relatively manual, static electoral roll system to a continually updated address based database, numerous requirements and recommendations have been implemented. While some funding has been received to compensate for some of these initiatives, frequently the AEC has had to absorb the balance of costs. Once introduced, many of these initiatives are on going, creating an underlying increasing cost base to which at least the CPI factor needs to be applied. In summary the changes creating budget pressures include;
- Legislative changes
 - JSCEM recommendations
 - JSCEM recommendations following the 1996 Elections
 - JSCEM recommendations following the 1998 Elections
 - AEC 2000 (Regionalisation of AEC service delivery). The requirement to maintain 3 person offices which was not fully funded and the need to absorb IT costs without support, caused a budget pressure.
 - Commission of Audit Report in 1996 requiring a 2% reduction of running costs
 - JSCEM Report on Roll Integrity
 - ANAO Report on Roll Integrity
 - Provision of roll information to senators, members and political parties
 - Changes to enrolment processes
 - Additional divisions
 - New funding and disclosure services
 - Growing international services
 - Increasing number of Non Parliamentary Elections
 - Efficiency dividends
 - Increasing management costs resulting from implementation of numerous administrative reforms, partly resulting from devolved responsibility from Finance, such as responsibility for property management. In addition an increasing administrative burden, including GST, OH&S, various payroll requirements, has had to be absorbed.

- 18.5. Staff numbers have not increased significantly since 1990. The initiatives have had to be absorbed by a relatively small proportion of staff as funding has not been available, to complement existing staff. The extent to which the additional work can be delegated to Divisional staff is limited. Practical geographic considerations may prevent the allocation of tasks to divisional offices. In addition, the technical nature of much of the enhancements precludes assistance by divisional staff.

Question 19

Paragraph 1.2.7 of the Submission states that the Government accepted recommendations made by the Committee in 1997. Why was new funding not obtained even when the Government supported the new initiatives?

- 19.1. The additional funding for the IT replacement, which was accepted in the Government's response to the 1997 recommendations, was sought by the AEC on two occasions but not provided. The IT replacement strategy was overtaken by the Government's IT outsourcing provisions of the time. The AEC was required to outsource to comply with policy, bear any additional costs and meet predetermined savings, through whole of government IT strategies.
- 19.2. The AEC has pursued every opportunity to obtain funding for IT and for other basic resources or new business as the opportunities present. In so doing the AEC has to comply with Government Budget policy and Ministerial or Cabinet decisions. Sometimes despite our best efforts to obtain additional funding we are not successful which can be due to a variety of factors such as other government priorities, tightness of budgets and lack of funds. New policy proposals, for example, have often fallen below the threshold required for separate funding and have consequently been absorbed by the AEC from normal annual appropriations. The support of the JSCEM has been of assistance to the AEC in obtaining some funds to maintain the high standard of our service, which is why we have alerted the Committee to our current position.

I - Conclusion

As stated in Submission 166 to the JSCEM, most of the AEC's growth has been met from within the existing funding base. Without a major restructure or additional funding, the capacity to fund any future growth in services or new business initiatives has been exhausted. A new funding arrangement is essential if the AEC is to continue to deliver the range of services that it currently provides. The AEC is currently working with Finance on a resourcing review.

The Committee should note that the AEC is not seeking JSCEM support for a specific increased funding amount, simply that some increase and a new funding base that reflects the increasing complexity and uncertainty of electoral administration, is warranted.

The AEC is working with Finance to determine the specific level of funding required.

J - ATTACHMENTS

Attachment 1 : Pocketbook Costs of 2001 Federal Election

2001 Federal Election

As @ 28/2/02

Election Expenses	\$
Advertising	10,408,504.00
Audits	1,364.00
Automated Postal Voting System (APVIS)	845,759.00
Ballot Paper Production	2,492,908.00
Cardboard Equipment Production	2,055,393.00
Certified Lists	1,165,950.00
Computer Support Services	485,003.00
Divisional Offices	28,439,907.00
Education & Information Service	245,324.00
Election Management	9,697,710.00
Election Report	32,631.00
Election Leaflet	1,712,340.00
Enquiry Services	3,670,873.00
Forms & Equipment	1,741,170.00
Funding & Disclosure	15,397.00
Internet	38,646.00
Litigation	86,276.00
Media and Result Centre	16,729.00
National Tally Room	615,270.00
News-file	49,687.00
Overseas Postal Voting	359,042.00
Pocket Book	17,349.00
Prosecutions	89.00
Public Relations	264,460.00
Research & Surveys	239,843.00
Roll Products & Services	1,212.00
Scanning	362,361.00
Senate Scrutiny	559,511.00
Storage & Distribution	587,776.00
TOOS/TOPS	1,062,144.00
Total	67,270,628.00

The above amount (\$67,270,628.00) is GST inclusive.

2000/2001 GST (Recoverable):	\$ 450,051.00
2001/2002 GST (Recoverable as @ 28/2/02)	\$ 2,512,354.00
Total GST (Recoverable)	\$ 2,962,405.00
Net Cost of 2001 Election as @ 28/2/02	\$64,308,223.00

Attachment 2 : Financial Personnel

Financial Management Expertise

Position : CFO / Assistant Commissioner Corporate Services

Name : Marie Nelson

Qualifications : Bachelor Applied Science

Master of Industrial Relations

Master of Financial Management

Appointed to position : February 02

Position : Director – Financial Management

(Currently : Project Manager Output Pricing (Resourcing) Review

Name : Fiona Codd

Qualifications : Bachelor of Business (Accounting) WD

Certified Practising Accountant (CPA)

Position : Assistant Director - Financial Management

(Currently on extended sick leave)

Name : Martin Gillies

Qualification : Bachelor of Arts (Accounting)

Position : Assistant Director - Financial Policy and Reporting

Name : David Burroughs

Qualifications : Bachelor of Commerce in Accounting

Chartered Accountant

Position A/g Assistant Director Financial Management

Name : Jeff O'Donnell

Qualifications : Bachelor of Business (Accountancy)

Certified Practising Accountant (CPA)

Position : Assistant Director Output Pricing (Resourcing) Project

Name : Robin Lathleiff

Qualifications : Bachelor of Commerce Honours (Economics)

Diploma of Accountancy

Chartered Accountant

Attachment 3 : Funding Gap Summary

AEC Funding Gap

Item	Estimated Funding Gap per annum	Non Discretionary	Discretionary	Election Funding	Reference Paragraph
	\$ m's	\$ m's	\$ m's	\$ m's	
IT Costs	4.00	4.00			1.2.7
CRU Data	0.50	0.50			5.3.2
ELIAS	0.20	0.20			5.4.2
Redistributions	1.00	1.00			5.5.2
Enrolment Display at Australia Post	0.23		0.23		5.6.1
ELMS	0.85			0.85	5.8.1
Temporary Staff Management System	0.15			0.15	5.9.2
Call Centres & Related Services	1.30		1.30		5.10.4
By-elections	0.50			0.50	5.11.1
EECs	1.70		1.70		5.13.2
International	1.00		1.00		5.14.1 & 6.4.1
Visitor program	0.04		0.04		5.15.1
Advertising	1.10		1.10		5.16.1
Web Services	0.26		0.26		5.17.2
FAD	0.70	0.70			5.18.4
Additional Corporate Costs, such as responsibility for banking, audit, reviews, employee consultation, staff training, OH & S, legal, recruitment, vehicles and corporate information systems	4.40	4.40			5.19.1
Property	4.50	4.50			5.20.7
Accumulated Unfunded Permanent Staff Salary Increases over time	3.00	3.00			5.21.5
Election Temporary Staff Salary	0.60			0.60	5.22.3
VTR	0.17			0.17	6.3.1(d)
Activity Gap	26.20	18.30	5.63	2.27	

(A) Non-Discretionary Costs

- 1.1. The estimated \$18.3m non-discretionary expenditure is required to prevent the consequences detailed in Submission 166 Para 7.2 of not receiving the funding. The savings necessary to fund this expenditure is difficult in the restrictive resource environment in which the AEC operates. Base expenditure consists of 54% Staff (including 3 staff per Division), 18% IT, 12% property and 16% other costs including depreciation and amortisation, printing and stationary. Property costs are fixed and can only be reduced over time. The rapid change in technology places external pressure on the AEC to upgrade and progress to maintain the current position leading to cost pressure. The

need to consider and implement e-business and e-voting initiatives, increases this pressure. Direct electoral costs, such as electoral forms, polling place hire and polling equipment have a limited scope for savings. Consequently staff costs, being the largest cost factor and readily adaptable are put under pressure. The quality of service provided and the maintenance of electoral expertise may be undermined if forced savings are made in this area to fund non-discretionary core activities. Currently there are several initiatives that have been deferred due to non availability of staff resources.

- 1.2. Delaying IT progress and current expenditure may result in substantial funding being required later to rebuild antiquated systems to acceptable levels. The IT innovations have become the face of the AEC, particularly during events. Failure to perform to an acceptable expected standard will harm the AEC.

(B) Discretionary Costs

- 2.1. The \$5.63m classified as discretionary costs, have a direct impact on customer service. While not essential in the short term, deferral of this expenditure will have a longer-term detrimental effect. Being the face of the AEC, the non maintenance / development of web sites and call centres designed to encourage customer interaction, will leave the AEC well behind normal commercial operations, undermining the current high standing of the AEC, resulting in the perception that the AEC does not have a customer focus and is not keeping abreast of normal business developments.

(C) Election Costs

- 3.1. Some cost components of events are inflexible. Future changes to voting procedures may lead to savings in the long term but will be dependent on IT progress, which is costly. These changes require considered implementation, consultation, testing and legislative support. The quality of election events may be undermined if the \$2.27m required cannot be maintained and the current systems not maintained.

Attachment 4 : Pocketbook Expenditure 1990 to 2001

ANALYSIS OF ELECTION EXPENDITURE BY PROJECT

Project ¹	1990 as at 30 June 1990	1993 as at 30 June 1993	1996 as at 30 June 1996	1998 as at 30 June 2000	2001 as at 28 Feb 2002
Advertising (Campaign)	8,376,400	7,943,091	7,193,000	8,780,782	10,408,504
Advertising (Non-Campaign)				540	
Audits					1,364
Automated Postal Voting System					845,759
Ballot Paper Production	747,300	1,225,762	2,740,000	2,629,788	2,492,908
Candidate Scrutineer Handbook					0
Cardboard Equipment Production		1,837,862	1,732,000	2,726,255	2,055,393
Certified Lists	1,097,000		1,057,000	898,885	1,165,950
Computer Support Services		1,914,060	2,782,000	8,924	485,003
Corporate Services Administration	396,200	1,684,360	1,271,000	73,046	
Divisional Offices	20,451,000	25,906,235	30,749,000	36,909,453	28,439,907
Education & Information Service					245,324
Election allowances			364,000	726,744	
Election Management					9,697,710
Election Report				95,852	32,631
Election Statistics			144,000	192,418	0
Elector Leaflet			1,474,000	1,463,302	1,712,340
Enquiry Services					3,670,873
Forms & Equipment	3,320,600	2,588,169	2,544,000	1,977,690	1,741,170
Forms & Equipment - RAMP					0
Funding & Disclosure			23,000	34,180	15,397
Internet					38,646
Litigation				88,109	86,276
Media Results Centre	47,600				16,729
National Tally Room		559,105	537,000	363,165	615,270
Newsfile					49,687
Overseas Postal Voting	171,000	189,461	260,000	430,880	359,042
Operational Administration	283,700		919,000	1,091,445	
Payment system	229,300		118,000	79,115	
Pocket Book				141,018	17,349
Prosecutions			3,000	388,504	89
Public Relations					264,460
Public Information Materials and Support			889,000	1,300,372	
Resources Monitoring			91,000	57,994	
Research & Surveys					239,843
Roll Products & Services		2,362,691			1,212
Scanning	1,161,100		256,000	361,181	362,361
Senate Scrutiny	247,000	259,811	578,000	946,743	559,511
Storage & Distribution	374,100		761,000	9,413	587,776
TOOS/TOPS	1,175,200	179,279	717,000	784,211	1,062,144
Computer enrolment service	2,345,600				
Other services	64,900				
Other staffing issues				228,263	
Sub-total	40,488,000	46,649,886	57,202,000	62,788,272	67,270,628
GST	0	0	0	0	2,962,405
Net total	\$40,488,000	\$46,649,886	\$57,202,000	\$62,788,272	\$64,308,223
Ave Cost per Elector	4.02	4.1	5.08	5.21	5.09
Constant Prices (Sep/Dec 1984 Base)	2.68	2.54	2.87	2.89	2.54
Constant Prices (Sep/Dec 2001 Base)	5.37	5.09	5.76	5.79	5.09

Source : Electoral Pocketbooks

Attachment 5 : Supplementary Detail For Question 1

Financial Trend Analysis

- (i) The substantial changes, financial and operational make a direct comparison of revenue and costs over the period 1983-84 to 2000-01 difficult.
- (ii) The number of electors on the electoral roll increased from 9,616,974 at the 30th June 1984 to 12,555,142 at 30th June 2001. This is an increase of 30%. Revenue as recorded in the annual report increased from \$35.103m in 1983-84 to \$108.637m in 2000-01 (after adjusting the 1983-84 dollars to 2001 dollar terms, reflects an annual increase of 2% per annum). After adjusting for property, depreciation funding and Electoral Amendment Act No.1 revenue to ensure consistency of comparatives, and reflecting 1984 dollars in 2001 dollar terms, the result is a net decrease in funding of 9% in total. Adjusting the expenses in a similar manner results in an increase of 4% in total. The net result is an unfavourable net gap between adjusted revenues and expenses. It should be noted that these figures are indicative only, as property and depreciation expenses were not recorded in 1983-84.
- (iii) Revenue and costs components in 1983-84 are not directly comparable to the 2000-01 components. A meaningful comparison of the financial figures requires the consideration of the following factors;
- The timing of the funding for event cycles,
 - Consistency of components for each of the financial years;
 - Revenue components
 - Expense components
 - Accounting treatment and adjustments
 - CPI movements
 - Operational changes during review period.

(iv) *Event Cycles*

1983-84 and 2000-01 were “non-election” years, with elections being held in subsequent years 1st December 1984 and 10th November 2001, consequently both would have included preparatory election costs. In addition to these costs 2000-01 would have included revenue and costs relating to the analysis and finalisation of the Referendum event.

(v) *Consistency of Component Elements*

In earlier years certain costs were not recorded by the AEC. For example in 1983-84 many costs were accounted for centrally in the books of the Department of Finance or were provided by other agencies. These included ;

- Property costs,
- Employee entitlements,
- Depreciation Costs.
- IT Support.

Other new budgetary arrangements also came into place during this period, for example the efficiency dividend and the capital user charge (CUC).

Revenue for 2000-01 included appropriation revenue related to the new provisions stemming from the Electoral Referendum Amendment Act (No.1) 1999 of approximately \$7.1m, for the first time. Funding for this new legislation has been quarantined for this purpose.

(vi) *Accounting Treatment and Adjustments*

Accounting Standards have also required a different accounting treatment of both revenue and costs. *Revenue* was not recognised in 1984-85, but was reflected in the appropriations to reimburse cash expenditure. *Expenditure* was accounted for on a cash basis, not accrual. In particular the accounting treatment for the recording and use of assets has changed, including the capitalisation of IT software costs and the revaluation and re-assessment of the lives of assets. In 1983-84 IT costs were minimal as the AEC was running on basic systems and infrastructure.

(vii) *Operational Changes*

The AEC has changed significantly, as detailed in Submission 166. In summary, the following significant changes have occurred, imposing a significant cost burden on the organisation;

- Increased divisional service levels by ensuring that offices were funded to the equivalent level of 3 staff in each Division. Some funding was provided in 1998-99 for this but was not as much as the AEC sought nor enough to keep pace with increases in associated costs.
- Two electoral systems, RMANS and ELMS have been superimposed on the existing inflexible and geographically dispersed organisation, without the normal benefits of technological efficiencies. The AEC is dealing with high volumes of private data and is driven by significant IT requirements. The rate of change of technology and the premium paid for IT expertise is costly.
- Continuous roll update and an address based database for roll management have been introduced. While CRU setup costs have been funded, much of the continuing maintenance has been absorbed by the AEC such as the increasing cost of using external databases.

- Increased management of resources stemming from more requirements being devolved to agencies such as the AEC from the central government agencies, for example the management of properties, cash and investments and employee entitlements.